

Message Text

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FM AMEMBASSY RANGOON

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C O N F I D E N T I A L SECTION 1 OF 2 RANGOON 1712

E.O. 11652: GDS

TAGS: EFIN, EAID, IBRD, BM

SUBJ: IBRD SURVEY MISSION'S STUDY OF BURMESE ECONOMY

REF: (A). RANGOON A-7, (B) STATE 064294

SUMMARY

A RECENT IBRD MISSION TO SURVEY THE BURMESE ECONOMY FOUND THE GUB COOPERATIVE AND OSTENSIBLY COMMITTED TO A POLICY OF ECONOMIC LIBERALIZATION. MISSION MEMBERS SAID THE BANK WOULD PLACE MORE STRINGENT REQUIREMENTS ON GUB PREPARATIONS FOR THE SECOND CONSULTATIVE GROUP MEETING INCLUDING A PROPOSED SCHEDULE FOR PRIVATE FOREIGN INVESTMENT. GUB OFFICIALS TOLD THE MISSION THAT BURMA IS OPEN FOR JOINT VENTURES WITH PRIVATE FOREIGN FIRMS, BUT SO FAR THE GOVERNMENT HAS RECEIVED NO PROPOSALS. ANOTHER WORLD BANK REPRESENTATIVE WAS IN RANGOON ALONG WITH THE MISSION TO DISCUSS THE PROBLEM OF PROCUREMENT OF LOGGING TRUCKS FOR AN IDA-FINANCED PROJECT AND GUB REJECTION OF A BANK PROPOSAL FOR FINANCING A RAILWAYS PROJECT. DESPITE IRREGULARITIES IN CONNECTION WITH THE LOGGING TRUCK PROCUREMENT, THE BANK REPRESENTATIVE SEEMED INCLINED TO SUPPORT THE GUB POSITION AND HE ALSO ACCEPTED THE GUB EXPLANATION REGARDING REJECTION OF BANK ASSISTANCE.

THE EMBASSY BELIEVES THE PRESENT WORLD BANK MISSION TOOK A MUCH MORE REALISTIC ATTITUDE TOWARD BURMESE ECONOMIC PERFORMANCE THAN HAVE PAST MISSIONS, AND WE WELCOME THE STRICTER

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REQUIREMENTS FOR GUB PREPARATIONS FOR THE UPCOMING CONSULTATIVE GROUP MEETING. DESPITE THE GUB CLAIM THAT BURMA IS OPEN FOR PRIVATE INVESTMENT, LEGISLATION AND GUARANTEES ARE NECESSARY BEFORE BURMA CAN ATTRACT SOUND INVESTMENT PROPOSALS. HOWEVER, WE FEEL THE BNAK'S MEEK ACCEPTANCE OF THE GUB POSITION ON THE LOGGING TRUCK TRANSACTION CAN HARM PROJECT IMPLEMENTATION IN BURMA. FURTHER, THE BURMESE REJECTION OF THE PROPOSED BANK

PROJECT SEEMS TO HAVE BEEN BASED ON A GUB DESIRE TO AVOID PROVIDING ANY MORE INFORMATION THAN NECESSARY TO INTERNATIONAL FINANCIAL INSTITUTIONS. END SUMMARY.

1. AN IBRD SURVEY MISSION VISITED RANGOON LATE MAY AND EARLY JUNE TO EVALUATE BURMESE ECONOMY AND PROSPECTS FOR FUTURE ECONOMIC DEVELOPMENT. THE INFORMATION GATHERED BY THE MISSION WILL BE USED TO PREPARE THE BANK'S ANNUAL REPORT ON BURMA'S ECONOMY WHICH IS SCHEDULED TO BE PUBLISHED IN OCTOBER, ABOUT SIX TO EIGHT WEEKS IN ADVANCE OF THE NEXT CONSULTATIVE GROUP MEETING FOR BURMA.

2. MISSION MEMBERS SAID GUB OFFICIALS COOPERATED WITH THEM TO THE FULLEST EXTENT POSSIBLE, AND SUPPLIED ALL AVAILABLE INFORMATION WHICH WAS REQUESTED. THEY EXPRESSED SOME RELIEF AT THIS ATTITUDE AS THE BANK HAD FEARED THAT GUB CABINET CHANGES, ESPECIALLY THE REMOVAL OF DEPUTY PRIME MINISTER AND MINISTER FOR PLANNING AND FINANCE U LWIN, MIGHT HAVE SIGNALLED A CHANGE IN BURMESE ECONOMIC POLICY AND A SETBACK FOR IBRD/GUB RELATIONS. THE MISSION FELT THE GUB WAS STILL COMMITTED TO A POLICY OF ECONOMIC LIBERALIZATION AND CONTINUED COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS.

3. NEVERTHELESS, THE MISSION MEMBERS STATED THE WORLD BANK WOULD BE PLACING MORE STRINGENT REQUIREMENTS ON THE GUB'S PREPARATIONS FOR THE NEXT CONSULTATIVE GROUP MEETING. THEY SAID THE BANK WOULD REQUIRE REALISTIC ECONOMIC GOALS RATHER THAN THE HAZY TARGETS SET FORTH BY THE GUB FOR THE LAST MEETING. THESE GOALS WOULD HAVE TO BE RELATED TO THE GUB'S
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OVERALL 20-YEAR ECONOMIC DEVELOPMENT PLAN AND NOT A SEPARATE DOCUMENT DRAFTED ONLY FOR EXTERNAL USE AS WAS THE CASE WITH THE FIVE-YEAR DEVELOPMENT PLAN PRESENTED AT THE LAST MEETING. FURTHER, THE GUB MUST SHOW THAT IT CAN ABSORB THE FULL AMOUNT OF EXTERNAL ASSISTANCE THAT IT IS SEEKING AND THAT PROPOSED PROJECTS CAN BE SATISFACTORILY IMPLEMENTED. THE BANK WILL ALSO ASK THE GUB TO PRESENT A DETAILED PROPOSAL AND SCHEDULE FOR PRIVATE FOREIGN INVESTMENT AT THE NEXT CONSULTATIVE GROUP MEETING.

4. IN CONNECTION WITH PRIVATE FOREIGN INVESTMENT, GUB AUTHORITIES TOLD THE MISSION MUCH THE SAME THINGS THEY HAD EARLIER TOLD THIS EMBASSY, OTHER DIPLOMATIC MISSIONS IN RANGOON AND THE ADB, I.E. BURMA WILL CONSIDER PROPOSALS FOR JOINT VENTURES WITH PRIVATE FOREIGN FIRMS ON A CASE BY CASE BASIS; THERE IS NO NEED FOR FURTHER LEGISLATION OR GUARANTEES REGARDING SUCH INVESTMENT.

GUB OFFICIALS SAID BURMA IS NOW OPEN FOR FOREIGN INVESTMENT AND EXPRESSED SOME SURPRISE TO THE MISSION MEMBERS THAT

"DESPITE THIS WELL KNOWN FACTT," NO FIREIGN FIRMS HAD YET PRESENTED ANY SOUND, SERIOUS INVESTMENT PROPOSALS WHICH THE GUB COULD CONSIDER.

5. MISSION MEMBERS WERE RELUCTANT TO DISCUSS THE PRESENT STATE OF THE BURMESE ECONOMY UNTIL THEY HAD HAD TIME TO EVALUATE THE INFORMATION GATHERED ON THIS TRIP. THE MISSION WILL RETURN IN AUGUST FOR FURTHER DISCUSSIONS WITH THE GUB AFTER THEY HAVE STUDIED THE DATA.

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6. ALTHOUGH NOT A MEMBER OF THIS DELEGATION, ANOTHER BANK OFFICIAL WAS IN RANGOON AT THE SAME TIME TO DISCUSS THE GUB DECISION TO PURCHASE HINO TRUCKS FOR THE IDA-FINANCED TIMBER PROJECT (SEE REFERENCES A AND B), AND PROPOSED WORLD BANK FINANCING FOR A RAILWAYS PROJECT. AFTER THE WORLD BANK HAD REJECTED THE GUB'S DECISION TO PURCHASE HINO LOGGING TRUCKS FOR THE TIMBER PROJECT, THE GUB CABLED THE BANK THAT IT WOULD PURCHASE THESE TRUCKS WITH ITS OWN FUNDS IF NECESSARY. THE BANK REPRESENTATIVE ATTEMPTED TO NEGOTIATE THE MATTER WITH GUB OFFICIALS. HE WAS TOLD THE DECISION WAS MADE AT THE CABINET LEVEL AND WAS FINAL. THE WORLD BANK OFFICIAL SAID THERE WAS NO CHOICE BUT TO ASK THE BANK'S TECHNICIANS TO ONCE AGAIN CONSIDER THE HINO SPECIFICATIONS. HE CLAIMED THE BANK HAD NO KNOWLEDGE OF ANY IRREGULAR PROCEDURES CONNECTED WITH THE GUB DECISION, BUT ADMITTED THAT THE GUB'S STUBBORN INSISTENCE ON EQUIPMENT WHICH DID NOT MEET THE BANK'S SPECIFICATIONS WAS HIGHLY UNUSUAL. HOWEVER, HE SEEMED INCLINED TO SUPPORT THE BURMESE STAND. REGARDING THE RAILWAYS PROJECT, THE GUB HAD INFORMED THE BANK IT WAS NO LONGER INTERESTED IN THIS LOAN. BURMESE OFFICIALS INFORMED HIM THAT THE PROJECT COULD BE FUNDED FROM BILATERAL SOURCES (FRANCE AND WEST GERMANY) AND THEY PREFERRED

TO USE WORLD BANK ASSISTANCE FOR SOME OTHER PURPOSE.

6. COMMENT: WHILE THE BANK MISSION STRESSED CONTINUED BURMESE COOPERATION, THE MISSION MEMBERS SEEMED MUCH LESS BULLISH ABOUT
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GUB ECONOMIC POLICIES THAN IN THE PAST. PERHAPS SOBERED BY EVENTS WHICH FOLLOWED THE THIRD PARTY CONGRESS, THE GROUP DID NOT ATTEMPT TO SEEK OUT "PRAGMATIC" INDIVIDUALS OR FACTIONS THAT MIGHT PUSH FOR ECONOMIC REFORM, BUT RATHER SOUGHT TO PERSUADE THE GUB AS A WHOLE THAT REFORM AND DEVELOPMENT ARE NECESSARY ASPECTS OF WORLD BANK ASSISTANCE. THEY ALSO SEEMED MUCH MORE INCLINED TO INSIST UPON ACTUAL PERFORMANCE RATHER THAN TO ACCEPT VAGUE PROMISES.

7. THE EMBASSY BELIEVES THIS ATTITUDE CAN LEAD TO A MUCH MORE MEANINGFUL DIALOGUE AT THE UPCOMING CONSULTATIVE GROUP MEETING. IF THE BANK OBTAINS FULL COMPLIANCE FROM THE GUB IN ALL CRITERIA, BURMA MAY BE ABLE TO DEMONSTRATE SOME PROGRESS TOWARD ECONOMIC DEVELOPMENT. THE U.S. SHOULD WELCOME THIS NEW APPROACH BY THE BANK AND FOLLOW THESE EVENTS CLOSELY WITH A VIEW TO CONSIDERING ITS OWN POSITION ON AID TO BURMA.

8. AS FAR AS PRIVATE FOREIGN INVESTMENT IS CONCERNED, WE WELCOME THE BANK'S INITIATIVE ON THIS MATTER AND WE HOPE THE GUB SEES FIT TO COMPLY AT THE CONSULTATIVE GROUP MEETING. GUB ASSERTIONS THAT BURMA IS NOW OPEN FOR FOREIGN INVESTMENT ARE PROBABLY LITTLE MORE THAN AN ATTEMPT TO COMPLY IN A PRE FORMA WAY WITH CONSULTATIVE GROUP RECOMMENDATIONS IN THIS REGARD, AND THUS "QUALIFY" FOR AID, WHILE CONCEDED NOTHING OF SUBSTANCE. A U.S. MINERALS FIRM WAS RECENTLY TOLD THAT ITS OVERTURES REGARDING A JOINT VENTURE WERE STILL "PREMATURE." THIS SEEMS AT ODDS WITH THE GUB STATEMENT THAT IT HAS RECEIVED NO PROPOSALS FOR JOINT VENTURES. AT ANY RATE, THE AMBIGUOUS STANCE THAT BURMA HAS TAKEN REGARDING JOINT VENTURES IS UNLIKELY TO ATTRACT MANY SERIOUS PROPOSALS FROM REPUTABLE COMPANIES. BURMA DOES NEED LEGISLATION AND SOUND GUARANTEES BEFORE THE COUNTRY CAN HOPE TO ATTRACT PRIVATE INVESTMENT. SOME BURMESE OFFICIALS MAY BE SINCERE IN THEIR BELIEF THAT THE GUB HAS GONE FAR ENOUGH IN STATING ITS POSITION ON JOINT VENTURES, BUT THEY ARE NAIVE IF THEY BELIEVE BURMA DOES NOT HAVE TO ACTIVELY SEEK
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AND PROMOTE INVESTMENT CAPITAL IN COMPETITION WITH OTHER DEVELOPING NATIONS. THE EXCHANGE ON JOINT VENTURES, INCIDENTALLY,

CLEARLY ILLUSTRATES THE REASONS WHY THIS EMBASSY HAS URGED THAT ANY MAJOR U.S. ECONOMIC AID SHOULD BE CONTINGENT, NOT UPON GUB "REFORMS," WHICH MAY BE JUST PRO FORMA, BUT UPON TANGIBLE EVIDENCE OF INCREASED PRODUCTIVITY IN RESPONSE TO INVESTMENT.

9. THE WORLD BANK'S MEEK ACCEPTANCE OF BURMA'S POSITION ON THE QUESTION OF LOGGING TRUCKS DOES NOT AUGUR WELL FOR A STRONGER BANK ATTITUDE REGARDING PROJECT IMPLEMENTATION. THE BANK REPRESENTATIVE APPARENTLY DID NOT WISH TO UPSET BURMESE SENSITIVITIES BY INQUIRING INTO THE REASONS FOR THE GUB POSITION. SO FAR BURMA HAS LARGELY AVOIDED ANY TAIN OF CORRUPTION IN ITS PROCUREMENTS UNDER IFI FINANCING, BUT SIMILAR QUESTIONABLE PRACTICES MAY WELL FOLLOW IF THIS PARTICULAR TRANSACTION GOES UNCHALLENGED. ALSO, WITH REGARD TO THE RAILWAYS, LOAN, DESPITE THE BANK REPRESENTATIVE'S FINDINGS, GUB RAILWAY OFFICIALS PRIVATELY TOLD AND EMBASSY OFFICER THAT THE REAL REASON THE BANK LOAN HAD BEEN REJECTED IN FAVOR OF BILATERAL AID WAS THAT THE IBRD REQUIRED TOO MUCH INFORMATION. THE BILATERAL AID COULD BE OBTAINED WITH FEWER QUESTIONS ASKED REGARDING PAST PERFORMANCE AND IMPLEMENTATION. APPARENTLY THE GUB IS WILLING TO ACCEPT BANK GUIDANCE AND SUGGESTIONS ONLY WHEN IT HAS NO OTHER RECOURSE.

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